LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 818** HLS 09RS 1186

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: June 25, 2009 9:43 AM	**Author:** ELLINGTON
Dept./Agy.: Revenue	
Subject: State sales tax exclusion for consumables	**Analyst:** Deborah Vivien

TAX/SALES-USE, STATE EN DECREASE GF RV See Note

Phases-in an exclusion from state sales and use taxes for certain tangible property related to the manufacturing process

Current law subjects purchases of tangible personal property consumed in the manufacturing process for manufacturing machinery and equipment to state sales tax, whether the property is consumed in operation or repair. Current law provides an exclusion from 68% of state sales tax on purchases of manufacturing machinery and equipment that is depreciable. This exclusion will increase to 100% on July 1, 2009.

Proposed law provides a phased-in exclusion from state sales tax to tangible personal property consumed in the manufacturing process, including fuses, belts, felts, wires, conveyor belts, lubricants and motor oils and the cost price of repair and maintenance of manufacturing machinery and equipment. This exclusion would only be available to manufacturers assigned to a NAICS Sector 3211 through 3222 or 113310, which is predominately wood and paper product manufacturing and logging. Sales tax on these items will be reduced by 25% in FY 10/11, by 50% in FY 11/12, 75% in FY 12/13 and 100% in FY 13/14.

EXPENDITURES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	DECREASE	DECREASE	DECREASE	DECREASE	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

EXPENDITURE EXPLANATION

While any individual tax credit like the one proposed by this bill adds additional administrative costs to the Department of Revenue, passage of some number of additional exclusion will add material additional administrative costs to the Department of Revenue.

REVENUE EXPLANATION

Without specific data related to consumable tangible personal property, it is not possible to specifically estimate the fiscal impact of this bill. The bill provides a sales tax exclusion on every item consumed in the wood and paper products manufacturing process as well as the logging industry and the cost of repairs and maintenance of manufacturing machinery and equipment in those sectors. The purchase of depreciable manufacturing machinery and equipment is already excluded from state sales tax. Given the size of the sectors involved (Louisiana Workforce Commission reports there are 131 employers in NAICS sectors 3211 through 3222 with 5,725 total employees and an additional 384 employers in the logging sector with 2,851 employees) and the highly capital intensive nature of the wood, paper and logging industries, state revenue losses are likely to be substantial. Industry representatives have testified to the large expense associated with refurbishing certain components of paper mills (e.g. $250,000 for a paper roller), and to the fact that facilities in Louisiana are used for this. It is assumed that the logging industry also experiences a high rate of repair, maintenance and use of consumables that is currently subject to state sales tax but would become exempt under this bill.

For illustration purposes, assume average eligible expenditures across the wood and paper industry of $2,000,000 per year on consumable items including maintenance contracts that might include non-depreciable replacement parts. Total sales would be $262,000,000 (131 manufacturers * $2,000,000). Adding in the logging industry at a smaller magnitude of $65,000 per year in purchases of consumables, repair and maintenance would add $25,000,000 resulting in total sales related to this bill of $287,000,000. At 4%, the fiscal impact at full phase-in would approach $11,500,000 per fiscal year.

While the illustration above may not reflect actual purchases of many smaller establishments, average eligible expenditures of only $25,000 by each employer would be sufficient to generate $500,000 per year of state revenue loss. Even without much industry-specific data, it seems reasonable to conclude that the impact to state general fund of this exclusion at 100% is likely to be significant, at least $5 million per year or more at full phase-in. The addition of the logging industry to the exemption increases this exposure, though a specific amount of exposure increase is not readily determinable. The fiscal note recommends at least a $6 million per year state revenue loss, at full phase-in.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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